PRESIDENT TRUMP'S PROPOSED POLICIES AND THEIR IMPACTS

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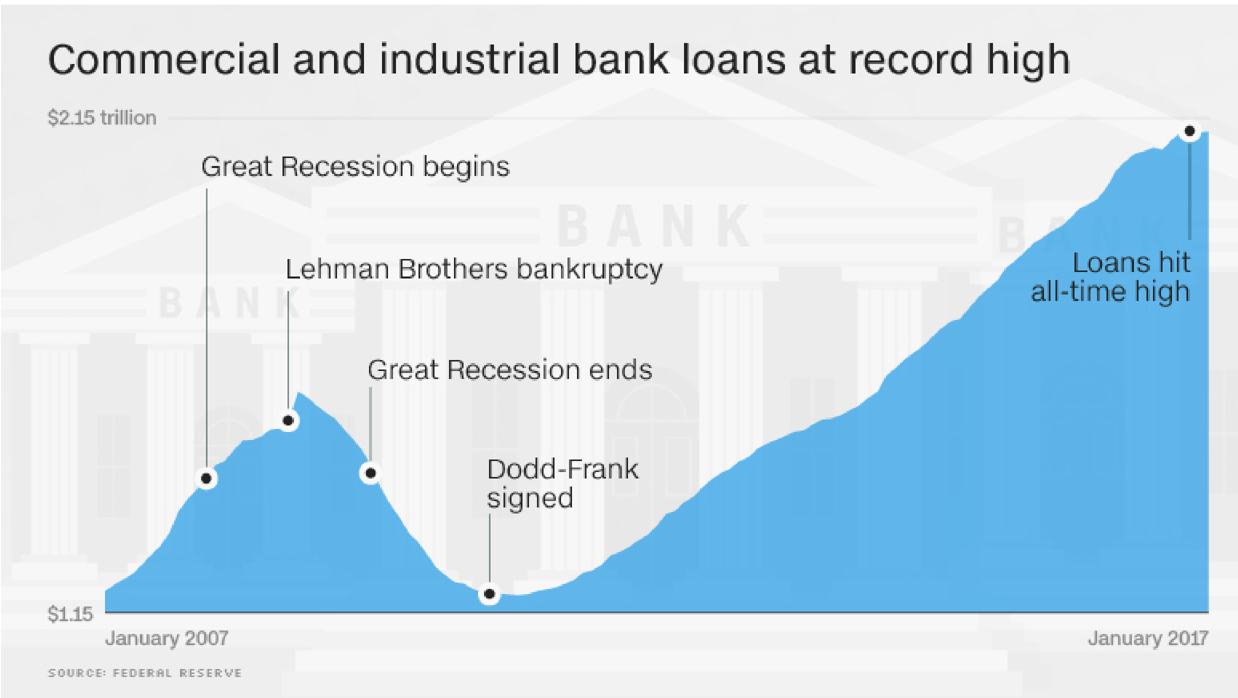
During his 2016 campaign, President Donald Trump campaigned to make America Great Again. To do that, he said we needed to protect the United States, get rid of "over regulation", and reduce taxes for all Americans. His most prominent claim was to protect the United States by proposing to introduce a travel ban for certain countries. He felt that US banks are over regulated and that has hindered their abilities to lend. Finally President Trump has also vocalized that he would like to abolish the "death tax". That being the Federal estate tax. All of these tax and policy changes would have some impact on the accounting and finance industry. Each of the aforementioned agendas will have significant impacts, intended and unintended. The first section will cover the implementation of the Dodd-Frank Act and its impact, the second section investigates the proposed travel bans on accounting firms, the third section explores corporate social responsibility, and the final section looks at a repeal of the estate tax.

Dodd-Frank Act

Before the financial crisis, larger financial institutions, commercial banks such as Wachovia and non-banks such as AIG, were considered too big to fail. Meaning they had enough capital and liquidity that they could survive any economic downturn. Dodd-Frank was created to address many different aspects of banking. Two of the most significant parts of the act were to prevent the collapse of major financial institutions and protect consumers from "abusive lending and mortgage practices by banks" (Koba). The act was to prohibit commercial banks and bank holding companies, who accept consumer deposits such as savings, checking, IRA's, and certificate of deposits, and are thus insured by the FDIC, from engaging in risky non-bank investments such as purchasing stocks, derivatives, hedges, etc. Banks would have to separate that line of business from the traditional retail banking portfolio. The reason large banks were conducting and investing in this type of behavior was driven by peer profit motive. They felt there was a great opportunity to make larger sums of money via the investment portfolio than traditional lending. The more money they generated equated to their bank value increasing. Which meant high stock prices for investors and more dividends declared. During the Great Recession, the housing market was collapsing and home owners were in default on their mortgages. Borrowers were then realizing what was truly buried within their mortgages and related disclosures. The act established a new regulatory authority, the Consumer Financial Protection Bureau, and with that came many changes in mortgage lending and consumer protections. The new rules have reduced the number of applicants a mortgage lender can push through, and thus reduces earning.

President Trump wants to completely get rid of the Dodd-Frank Act because he feels it is limiting the bank's ability to lend to consumers and small businesses. During the initial discussion of the Dodd-Frank Act, the majority of banks were not too thrilled about the idea. The Act required that banks increase their minimum capital requirements, separate their investment banking operations from their retail banking operations and comply with many new mortgage lending requirements. As noted above, banks buy and sell derivatives, stocks, hedge funds, etc. in order to hedge risk on profit margins associated with providing traditional financial services. The banks make a lot of money by participating in these activities, but they are banned under the Dodd-Frank Act. The Dodd-Frank Act contains the Volcker Rule, which restricted banks investing in portfolios that were deemed risky. By repealing the act, banks could be enticed to get back into that market again. Although at this part of the Act's life, many of the large banks have already started or have completed the segregation process, retail banking is one unit and financial investment another. The same can be said with the capital requirements. Most have already have taken action to increase their capital to meet the new guidelines that are fully in effect in 2019. Again repealing the Act will again entice banks to eat away at their capital in lieu of greater profit motive opportunities. By repealing the mortgage underwriting mandates, banks could easily start making mortgages to consumers that have no capacity to pay them back and again bring about the mortgage (default) crisis that started in 2008.

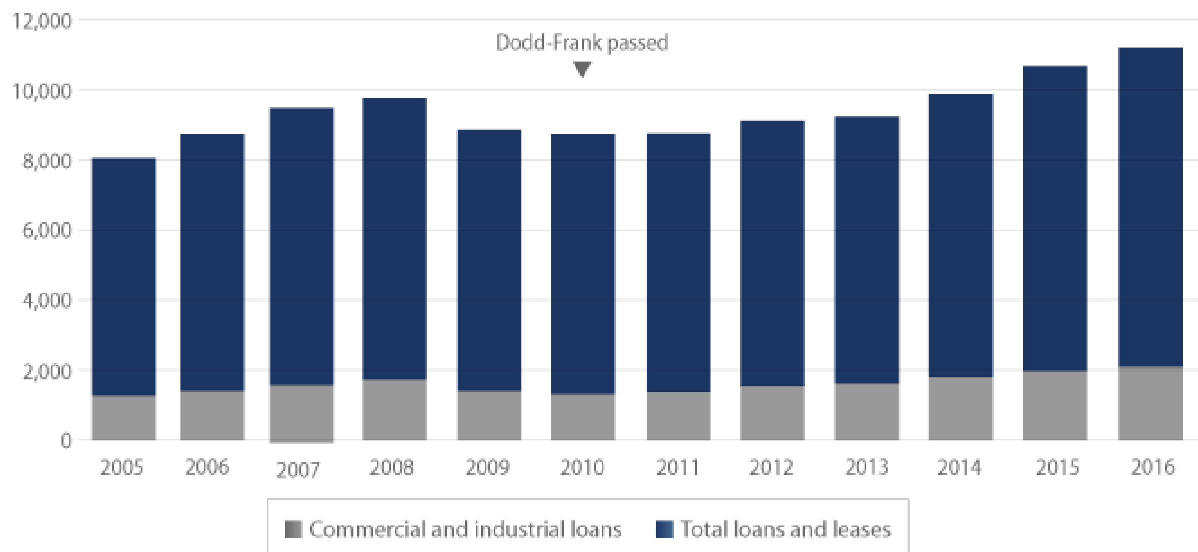


As you can see from the graph, the Dodd-Frank Act has not limited the number of loans financial institutions can lend to customers. If anything, the act allowed financial institutions to make better judgments on the types of loans they were considering lending.

Source: http://money.cnn.com/2017/02/13/investing/bank-business-lending-dodd-frank-trump/

FIGURE 5

Loans at commercial banks in the United States, in thousands of 2016 dollars, 2005–2016



Source: Federal Reserve Bank of St. Louis, "Commercial and Industrial Loans, All Commercial Banks," available at https://fred.stlouisfed.org/series/BUSLOANS (last accessed March 2017); Federal Deposit Insurance Corporation, "Loans to Small Businesses and Farms, FDIC-Insured Institutions, 1995 - 2016," available at https://www.fdic.gov/bank/analytical/qbp/timeseries/SmallBusiness&FarmLoans.xls (last accessed March 2017).

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This graph shows that the amount loaned out to consumers has steadily increased since the inception of the Dodd-Frank Act. The act has not restricted the ability to lend to commercial or private lendees.
Source: https://fed.stlouisfed.org/series/

Travel Bans

President Trump has tried to pass two separate travel bans since he began his time in office. The seven countries listed were predominantly Muslim. President Trump's travel ban is having a very large unintended consequence within the accounting industry. Many large accounting firms have offices all over the world and conduct training in one central location, usually the United States. We are generally taught to be culturally competent when we travel and when we meet people from around the world. It is important to recognize the different cultures around the world and learn their customs and courtesies prior to meeting them. By being culturally competent, there is a decreased chance that we could insult someone from another country accidently. If we take a look at the people of Iraq, we would learn that they avoid giving direct answers. If someone asks them to do an impossible task, they will respond with “I’ll see what I can do”. Iraqis also avoid making direct eye contact with those they are speaking to. Iraqis are very generous with their time, with appointments often running over the allotted time. They are also quite understanding of tardiness. People of the United States do not shy away from confrontation, unlike people from China, who make every attempt to avoid confrontational situations. The Chinese will laugh to diffuse an uncomfortable situation. Training all employees in the United States makes collaboration easier between global firms. For example, if there is a video chat between a partner at RSM in the United States and an associate in Iraq, when the Iraqi is asked if they have finished an audit yet, they will respond with “no”, rather than an ambiguous answer that could mean a yes to the partner in the United States. A travel ban would not allow accounting firms to bring employees from the banned countries into the United States for necessary training and cultural diversity education. Firms in the United States will also work alongside other firms located in different countries on joint audits. The travel ban could restrict members of both firms from getting together to discuss their findings or perform more extensive testing of audit procedures.

Corporate Social Responsibility Reporting

The Securities and Exchange Commission regulates what publicly traded companies must report in their financial disclosures. The Securities and Exchange Commission was working on requiring companies to report on their corporate social responsibility. Corporate Social Responsibility is defined as a “business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders” (Financial Times). The Securities and Exchange Commission wanted companies to disclose things such as climate change, resource scarcity, ethical labor practices, training, education, diversity of work force, corporate philanthropic initiatives, and corporate citizenship. Many large companies already voluntarily disclose sustainability reports. The Securities and Exchange Commission received thousands of comments praising this mandatory publishing from the investment community and advocacy groups. In fact, the United States Supreme Court, in a 1988 court case, held that facts about a company are material if there is a substantial likelihood that a reasonable investor would consider the information important in making investment decisions. President Trump does not want corporate social responsibility reporting to be mandated, his plan is to roll back environmental protections and cut environmental budgets. However, many firms were looking forward to the extra revenue from customers more willing to invest in and purchase from socially responsible companies. These cuts will also reduce the number of newly created jobs in the area of environmental protection.

The Securities and Exchange Commission also requires that companies report contingent liabilities. A contingent liability is stated when there is the possibility of a financial loss. This can include pending litigation. There is currently discussion regarding the recent Wells Fargo news about the illegal opening of customer accounts without their knowledge. The Securities and Exchange Commission is looking into whether or not the litigation should have been disclosed in the company's financials. Wells Fargo knew that it was impending action from a regulatory agency. They didn't report it, so their stock was overvalued. As soon as the news came out, stock prices declined.

The question here is how the reduction in mandatory corporate social responsibility reporting will affect the accounting world. First off, accountants are responsible for creating a company's financial statements. A reduction in corporate social responsibility reporting would reduce the amount of time spent in creating the financial reports. As mentioned previously, corporate social responsibility reporting tends to draw in investors whose focus is on sustainable practices and the betterment of society. A lack of investors means a decline in capital and equity for a company. This is the money that is put into a business to keep it running and expand it. Accountants are in charge of the budget. If there are few investors, the accountants have to say "no" to more company spending. Without equity, a company will fail. Accounting firms doing corporate responsibility assurance engagements must follow International Standard for Assurance Engagements if there is not national alternative. When auditors audit the financial statements, they will not have to test for materiality of the corporate social responsibility reporting as identified in the 1988 Supreme Court case mentioned previously if the mandatory reporting is revoked.

Estate Tax Repeal

President Trump also wants to repeal the Federal estate tax. A Federal estate tax repeal would put pressure on the states to repeal their estate tax as well. Estate tax is a tax one an Individual's right to transfer property at their death. A person's estate tax is calculated based on the fair market value of everything they owned or had an interest in at their date of death. Currently, anyone with an estate of $5,490,000 is required to file an estate tax return. There is a small percentage of the United States population that would be required to file an estate tax return. With proper estate planning, most people can reduce their estates below the filing requirement threshold.

As of right now, accountants have quite a bit of work to do in order to file estate tax returns. An estate tax return follows the same general guidelines as an income tax return. Accountants must total up all of a decedents assets and determine their fair market value. Fair market value is not necessarily what was paid for the items or what they were valued at when acquired by the decedent. Once the assets' fair market values are totaled, that number is referred to as the gross estate. Once the gross estate is accounted for, there are certain deductions allowed to determine the taxable gross estate. Such deductions include mortgages and other debts, estate administration expenses, property that passes to surviving spouses and qualified charities, and the value of business interests or farms. This gives the net taxable estate. The amount of lifetime taxable gifts is then added to the net taxable estate and the tax is figured from there. State estate taxes follow a similar pattern, however the taxable estate amount is significantly less than the federal amount. Minnesota's estate tax is $1,800,000. The time needed to complete an estate tax return is lengthy, and therefore very costly to the taxpayer's family.

President Trump's repeal of the estate tax would obviously eliminate the need for the federal estate tax return. There is an assumption that when and if the federal estate tax is removed, states will follow suite and get rid of their estate taxes as well. One issue that arises with the repeal of the estate tax is what will happen with the gift tax. The gift tax is a tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return. It is assumed that the gift tax will follow suite with the estate tax. Accountants are in limbo as they wait to hear about the fate of the estate tax and subsequent questions revolving around the possible estate tax repeal, one of which is the possibility of a capital gains tax in place of the estate tax. An overall repeal of the estate tax, both federal and state, would save accountants time when preparing deceased clients tax returns. Accountants also advise their clients on what to do if they are subject to estate tax. Accountants can easily calculate what the tax would be on the estate and set up some sort of plan for the individuals to have that money set aside so their estate can be paid. As of right now, accountants are having a difficult time advising their clients because of the uncertainty of President Trump's estate tax proposal. If they were to advise on estate tax, but Trump implements a capital gains tax, then clients may or may not have enough money to pay the taxes. This puts the burden on their family members to come up with the excess money.

Conclusion

Throughout his campaign and into his presidency, Donald Trump has talked about the many goals he wants to accomplish during his time in office. There is both support and opposition towards his many ideas. The travel ban and repeal of Corporate Social Responsibility reporting negatively impacts the accounting industry. The Dodd-Frank Act did not have a negative impact, like President Trump had stated it did. The act has made it more costly for financial intuitions to give mortgages and has pinched their earnings, but it has provided stricter regulations in the hopes it could prevent another financial crisis. It is currently unknown how a repeal of the Federal estate tax would impact the accounting sector. Estate tax returns are very long and cumbersome to prepare, but without a firm direction in which to go after its repeal, it cannot be said whether or not IRS form 706 will make life more difficult for accountants. It is my opinion that President Trump needs to gather more information on these topics before he proceeds with his intended plans to ban people from entering into the United States and repealing taxes and regulations. There are many different aspects to consider when making decisions on behalf of the people of the United States.

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